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Oversight lacunae in the United Nations system

Note by the Secretary-General

The Secretary-General has the honour to transmit, for the consideration of the General Assembly, his comments and those of the United Nations System Chief Executives Board for Coordination on the report of the Joint Inspection Unit entitled "Oversight lacunae in the United Nations system" (JIU/REP/2006/2).



Summary

The report of the Joint Inspection Unit (JIU), entitled "Oversight lacunae in the United Nations system" (JIU/REP/2006/2), examines the oversight structures in place throughout the system, and the coordinating mechanisms that exist between them. While concluding that no major deficiencies exist in the oversight arrangements, the report notes that there remain a number of important issues that need to be addressed and directs its recommendations principally towards strengthening the existing mechanisms.

Members of the United Nations System Chief Executives Board for Coordination (CEB) welcome the detailed nature of the report, which they regard as a valuable contribution to the ongoing discussions on this important issue. They also note that the results of the independent external evaluation of the audit and oversight system within the United Nations commissioned by the United Nations Secretary-General at the request of the General Assembly, which are bound to have implications for the JIU recommendations, have still to be reported.

I. Introduction

1. The Joint Inspection Unit (JIU) report entitled "Oversight lacunae in the United Nations system" explores the timely issue of the roles and practices of oversight structures in use throughout the United Nations system, as well as their coordination and cooperation mechanisms. Through its study, JIU seeks to assess "the capacity of existing oversight mechanisms to deal with major risks that may arise in the United Nations system". CEB member organizations note that the report comes at a time when the system is taking stock of its practices and activities in the area of oversight, and thus contributes to this overall process. They also note that as a result of the 2005 World Summit, the General Assembly, in resolution 60/1, requested the Secretary-General to submit an independent external evaluation of the auditing and oversight system of the United Nations, including specialized agencies, and that that evaluation should take place within the context of the comprehensive review of the governance arrangements. The external evaluation is expected to be completed in June 2006 and covers much of the same territory as the JIU report. CEB organizations believe that the JIU report should thus be considered in conjunction with the independent study.

II. General comments

2. Organizations noted that JIU placed too much emphasis on its own "suggested standards", without a clear description of how these standards were developed or what prior best practice analysis supports them. They also expressed uncertainty as to how a uniform standard such as proposed by JIU would function in the United Nations system, with its diverse range of organizational structures and mandates. In their view, the report could have benefited from a discussion of how the basic concepts of risk, controls and governance that underpin current professional standards for oversight work might apply to the United Nations system. Organizations also note that the report did not acknowledge the Institute of Internal Auditors (IIA), whose standards the system adopted in 2002 and are more likely to be accepted than any JIU-suggested standards.

3. In addition, all organizations welcome the extensive information contained in the annexes to the report. They acknowledge that such a comprehensive survey of the oversight mechanisms in use throughout the system will benefit the current system-wide discussions on this topic. However, they caution against interpreting the statistics presented in the annexes without a complete understanding of the different operational models and business practices within the United Nations system. For example, for some organizations the staff count, by which JIU determined relative spending levels, did not include consultants and contractors who are hired to augment the staff capacities of oversight bodies and would therefore skew the results.

III. Specific comments on recommendations

Recommendation 1: The legislative bodies of each United Nations system organization should establish an independent external oversight board composed of five to seven members, all of whom shall be elected by Member

States to represent the governing bodies' collective interests. They should have prior experience in areas of oversight. In carrying out their functions, they should be assisted by at least one external adviser with recognized expertise in oversight matters to be chosen by them.

4. Several CEB members support this recommendation; some have already established such oversight boards or are in the process of doing so. Others, however, have reservations regarding the specifics of the mechanisms outlined in the report. For example, one agency expresses unease about the JIU proposal that the members should be "elected by Member States to represent the governing bodies' collective interests" and points out that, while governing bodies should approve the membership of such boards and ensure that they have appropriate terms of reference, the boards should act independently of the governing bodies themselves in order to discharge their role with full objectivity. Another agency points out that, in the private sector, external specialists serving on these boards generally expect compensation, and it might be unreasonable to expect them to perform that function on a pro bono basis. In addition, some agencies have pointed out that the United Nations funds, programmes and specialized agencies have differing governing structures, which will need to be taken into account when considering these recommendations, and that establishing such a board could require amendments to an organization's financial rules and regulations, as well as be subject to approval by governing bodies, complete with resource implications. Organizations strongly concur with the point in the recommendation regarding the need for them to be composed entirely of individuals experienced and knowledgeable in oversight functions and with the relevant business experience in managing risk.

Recommendation 2: The General Assembly should decide that the ACABQ, ICSC and JIU should be subject to peer review at least every five years. Modalities for the peer review should be developed by the bodies concerned.

5. Organizations of the system, while generally supporting the sentiment implicit in the recommendation, expressed reservations regarding some of the details. They felt that peer reviews do not always ensure independence, and that consideration should be given to at least a periodic review by external bodies (such as the United Nations Board of Auditors). Agencies also pointed out that to have the modalities for the peer review developed by the bodies themselves would result in a conflict of interest.

Recommendation 3:

(a) The General Assembly should decide that:

(i) The budget proposals for ICSC and JIU should be drawn up by the entities themselves, and incorporated as such into the Secretary-General's budget estimates to be submitted through ACABQ to the General Assembly for review and approval;

(ii) The budget proposals for ACABQ should be drawn up by the Committee itself, and incorporated as such into the Secretary-General's budget estimates to be submitted to the General Assembly for review and approval;

(b) The legislative bodies should decide that the proposed fees and terms of engagement of the external auditors should be submitted to the respective governing body through the external oversight board of each organization.

6. CEB organizations have not commented extensively on this recommendation, but on point (a) some have noted that since ICSC and JIU provided services to agencies across the system, these agencies should be able to provide input into the ICSC and JIU budget process, especially if the agencies are being asked to contribute. Therefore, for organizations that contribute financially to system-wide oversight bodies there should be some mechanism for inter-agency consultation on the levels of their budgets. Some agencies feel that if ICSC, JIU and ACABQ draw up their own budget, there should be an explicit and effective means to ensure that these entities do not exceed a specific limit, and that cost control and other management measures apply.

Recommendation 4: The legislative bodies should decide that the members of ACABQ, ICSC and JIU and other similar bodies within the United Nations system be subject to a uniform regime barring them from any appointment, including as a consultant, in the United Nations system organizations for which they have had oversight responsibilities both during their service and within three years of ceasing that service.

7. CEB organizations generally agree with this recommendation.

Recommendation 5: The legislative bodies should direct that term limits be established for the external auditors of the United Nations system organizations, and that the staff that have worked as external auditors be barred from taking up executive functions for a period of three years in those organizations for which they have had oversight responsibilities.

8. Organizations of the system agree with the need for some form of term limits, although they suggest that the six-year non-renewable term referred to in paragraph 28 of the report might not serve the interests of the system. They feel that it is too short a period for an outsider to be effective, while it can be too long if the appointment does not meet the needs of the organization. One suggestion that would address this issue is for a renewable four-year term, which would allow for the necessary review of performance. Organizations note that most professional audit institutions have ethical standards restricting staff from accepting appointments with clients; and that the restriction normally depends upon the level and responsibilities of the audit staff and is more restrictive at the senior level. Therefore, organizations support restrictions in line with best practice.

Recommendation 6: Executive heads should review the current structure of internal oversight in their respective organizations and ensure that:

(a) Audit, inspection, investigation and evaluation functions are consolidated in a single unit under the head of internal oversight reporting directly to the executive head;

(b) Any functions other than the four oversight functions should be positioned elsewhere in the secretariats and not in the internal oversight unit.

9. CEB organizations generally agree with the idea of merging the audit, investigation and inspection functions, but some have reservations about including the evaluation function within the same unit. They feel that the relationship between

evaluators and the programmes being evaluated and the approach taken are very different from those between auditors/investigators and the activities, projects or programmes being audited and/or investigated, and therefore that these two types of oversight activities (evaluation and audit/inspection/investigation) serve different needs and require very different expertise. Other organizations combine all functions and consider this to work well, and point to the cost and coordination advantages that combining these functions within a single unit can bring. These organizations feel that combining these units have increased their efficiency, effectiveness and credibility. Some organizations point out that where these functions are combined, the leadership of the combined unit should concentrate on management and coordination between the two classes of functions, and ensure that resources remain balanced, and not move away from evaluation, as has occurred in certain cases.

10. The text of the report (para. 34) expands on part (b) of the recommendation and refers to whether or not "management consulting services" should reside within the unit responsible for oversight functions. While some organizations of the system agree with the recommendation, others feel strongly that the oversight bodies can offer significant "value added" in supporting management by undertaking consulting assignments which seek to improve an organization's governance, risk management and control processes, and therefore should be allowed to do so. They point out that it is up to management to accept or reject such advice as appropriate. Those organizations that have this function within their internal audit and oversight office describe the experience as very positive and by no means impairing the oversight office's independence; instead, they have discovered that considerable added value is achieved by involving staff members from these different but related disciplines.

Recommendation 7: The legislative bodies of each United Nations system organization should direct their respective executive heads:

(a) To review the capacity of the organization to conduct investigations and put forward proposals for the establishment of a minimum in-house capacity for investigations;

(b) To ensure that a minimum investigations capacity comprises qualified and experienced professional investigators who would not be subject to rotation within that organization;

(c) To ensure that investigations entities are authorized to initiate investigations without interference from senior management in the respective organizations;

(d) To ensure that independent reporting procedures for investigations are established (see recommendation 11 below).

11. CEB members agree with most of the points contained within recommendation 7, while pointing out that consideration should be given to the size and mandate of any given organization and that in many cases organizations have already begun to strengthen their investigative capacities. Most notable in this regard are recent actions taken by the General Assembly to enhance the capacity of the Office of Internal Oversight Services of the United Nations. This includes reinforcing the independent nature of the Office, thus allowing it to exercise exclusive independent authority to investigate the most serious cases involving high-risk and complex

matters. Organizations note that the issue of rotation referred to in this recommendation must be further explored, since non-rotation of investigators carries with it other risks relating to stress and other factors. Furthermore, some organizations indicate the need to reflect the fact that certain investigations can and should be outsourced, for example when an increase occurs in the workload or when a specific skill, such as a language skill, is required. In addition, while not specified in the recommendation, it is stated in the text of the report (para. 36) that for those agencies not meeting the minimum number of staff to require an inspector, "JIU plans to provide this service". Some agencies object to this, as they believe it exceeds the mandate of JIU and could result in a conflict of interest for JIU as the author of the report.

Recommendation 8: The legislative bodies of each United Nations system organization should direct their respective executive heads to establish similar policies and procedures to those recently established by the United Nations to provide protection against retaliation for reporting misconduct, and they should be widely publicized.

12. CEB organizations agree with this recommendation and note the importance of creating and enforcing such policies and procedures.

Recommendation 9: The legislative bodies of each organization should decide that the proposed budget of the internal oversight entity should be drawn up by the entity itself and submitted to the external oversight board, together with any comments of the executive head, for review and transmittal to the appropriate governing body.

13. While generally accepting this recommendation, organizations of the United Nations system note that the report does not make a clear distinction between the review of the oversight unit's budget proposals and the control of the budget's implementation.

Recommendation 10: With respect to the appointment of the head of internal oversight, the legislative bodies in each organization should decide that:

(a) **Qualified candidates should be identified on the basis of a vacancy announcement that should be widely publicized;**

(b) **Appointment should be subject to consultation and prior consent of the governing body;**

(c) **Termination should be for just cause, and should be subject to the review and consent of the governing body;**

(d) **A non-renewable tenure of five to seven years should be established, with no expectation of any further employment within the same United Nations organization at the end of the term.**

14. CEB organizations generally agree with the recommendation, with some reservations about points (b) and (d). Regarding point (b), most organizations express concern that associating the appointment and termination of a senior staff member, especially for an oversight position, with the governing body's approval runs the risk of politicizing appointment decisions and thereby jeopardizing the independence and objectivity of the appointee. On point (d), organizations point out that there can be a range of human resources-related issues concerning term limits,

especially if reassignment elsewhere in the organization is forbidden. Therefore, they believe that additional consideration needs to be given to what happens to the head of internal oversight after the end of his/her term.

Recommendation 11: The legislative bodies in each organization should direct their respective executive heads to ensure that the following minimum standards are in place for reporting on internal oversight:

- (a) Internal oversight reports to be submitted to the executive head;
- (b) An annual internal oversight summary report to be submitted independently to the oversight board for its review, with the comments of the executive head submitted separately;
- (c) Individual internal audit, inspection and evaluation reports to be provided to the oversight board, on request;
- (d) Individual investigation reports to be provided to the oversight board, on request, with due safeguards for confidentiality.

15. Organizations of the United Nations system welcome recommendation 11, with the exception of point (b), which some believe would impose too rigid a structure for the presentation of summary reports. In particular, some organizations would prefer the annual evaluation and audit reports to be presented separately and feel the JIU report does not put forward a convincing case for combining them. However, some organizations feel that these reporting matters should not be considered by legislative bodies, but as part of the internal oversight standards established by the internal audit policy, and point to already-established IIA performance standards as examples.

Recommendation 12: With respect to the follow-up of oversight recommendations, the legislative bodies in each organization should direct their respective executive heads to ensure that:

- (a) A database is created to monitor the follow-up to all oversight recommendations, and pending recommendations are monitored and followed up on a timely basis;
- (b) The annual internal oversight summary report to the oversight board contains a summary of oversight recommendations not yet fully implemented.

16. CEB organizations either take note of or accept the points in recommendation 12, and point out that in many organizations mechanisms for follow-up already exist. Furthermore, some organizations note that it is the responsibility of management to implement recommendations and introduce monitoring mechanisms.

Recommendation 13: The legislative bodies in each organization should direct their respective executive heads to ensure independent quality assessment, for example through peer review, of the internal oversight entity, at least once every five years.

17. Organizations of the United Nations system accept the recommendation, but some also strongly object to the implication that such reviews are not being performed now. They note that the JIU report fails to recognize that under the IIA standards, to which all United Nations entities subscribe, all internal audit units

must be reviewed every five years. Furthermore, they note that similar modalities are under review for evaluation activities.

Recommendation 14: The legislative bodies in each organization should adopt the following standards in respect of internal oversight:

(a) For those organizations that manage biennial resources of at least US\$ 250 million, an internal oversight unit is justified;

(b) For those organizations that manage biennial resources of less than US\$ 250 million, internal oversight services should be in-sourced to any other organization in the United Nations system that has the capacity to respond.

18. The organizations of the system generally agree with recommendation 14, although they are also of the view that the analysis underlying the recommendation is simplistic and fails to recognize adequately the many factors that need to be taken into account, such as the nature of the organization's operations or whether the organization has a significant field presence. For these reasons, they stress that it can be very difficult to reach conclusions based on the tables presented in the annexes.

Recommendation 15: The legislative bodies in each organization should direct their respective executive heads to put forward proposals for:

(a) The establishment of an ethics function with clear terms of reference which should be publicized through the organization's website and other media;

(b) The establishment of a post of ethics officer at the D-1/P-5 level, as appropriate, within the office of the executive head;

(c) Mandatory integrity and ethics training for all staff, particularly newly recruited staff.

19. Organizations of the system support all the points in the recommendation and note that many organizations already have or are in the process of establishing ethics offices or ethics officer posts, while others are studying the issue carefully. Some organizations point out that a full-fledged ethics office may not be the preferred option, especially given scarce resources at smaller organizations, and that JIU should have considered alternative solutions for these cases.

Recommendation 16: The legislative bodies in each organization should direct their respective executive heads to put forward proposals for:

(a) The establishment of confidential financial disclosure requirements for all elected officials and all staff at the D-1 level and above, as well as those staff mentioned in paragraph 50 above;

(b) The annual filing of the financial disclosure statements to the ethics office(r) for review.

20. Organizations of the system accept the recommendation, while noting that many have already implemented similar policies and practices, or are in the process of doing so.

Recommendation 17: The legislative bodies of each United Nations system organization should direct their respective oversight boards to establish an

effective mechanism for coordination and cooperation among the external and internal oversight bodies on a system-wide basis.

21. Organizations of the system agree with the recommendation. However, they also point out that JIU could have expanded on the effectiveness of existing networks within the oversight community, and that a review of these networks would have been helpful.